

Message Text

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ACTION COME-00

INFO OCT-01 ARA-10 IO-13 ISO-00 AGRE-00 CEA-01 CIAE-00

DODE-00 EB-08 FRB-03 H-01 INR-07 INT-05 L-03

LAB-04 NSAE-00 NSC-05 PA-01 AID-05 SS-15 STR-04

ITC-01 TRSE-00 USIA-06 PRS-01 SP-02 OMB-01 FEA-01

AF-10 EA-07 EUR-12 NEA-10 OIC-02 /139 W

-----095821 042320Z /70

P 042132Z AUG 77

FM AMEMBASSY BOGOTA

TO SECSTATE WASHDC PRIORITY 3006

INFO USMISSION GENEVA PRIORITY

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USMTN FOR MTN GENEVA

E.O. 11652: N/A

TAGS: ETRD, CO, GATT

SUBJ: NOTIFICATIONS OF SERVICES RESTRAINTS IN THE MTN

REF: STATE 180214

1. KNOWLEDGEABLE INSURANCE SECTOR SOURCE (US COMPANY)

PROVIDED FOLLOWING INFORMATION:

A. REINSURANCE. COLOMBIA REQUIRES THAT 60 PERCENT OF REINSURANCE BE PLACED LOCALLY AND PERMITS 40 PERCENT TO BE PLACED ABROAD PER LINE OF BUSINESS. EXCEPTIONS TO THE 60/40 RULE ARE PERMITTED IN THE CASE OF HIGH VALUE/ HIGH RISK POLICIES WHICH CANNOT BE ABSORBED BY THE LOCAL MARKET. INSURANCE OPERATIONS FALL UNDER THE JURISDICTION OF THE SUPERINTENDENT OF BANKS, AN OFFICE WHICH, ACCORDING TO OUR SOURCE, IS HIGHLY COMPETENT AND PROFESSIONAL IN ADMINISTERING THE LAW.

B. INSURANCE OF IMPORTS. IMPORTS (WITH THE EXCEPTION OF AID FINANCED SHIPMENTS) MUST BE INSURED IN THE DOMESTIC

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INSURANCE MARKET. HOWEVER, ALL COMPANIES ESTABLISHED AND AUTHORIZED TO OPERATE IN COLOMBIA, INCLUDING FOREIGN-OWNED COMPANIES, CAN COMPETE FOR THIS BUSINESS.

C. INTENT. THE INTENT OF THE RESTRAINT, OBVIOUSLY, IS TO ENCOURAGE THE DEVELOPMENT OF THE LOCAL INSURANCE INDUSTRY AND ALSO TO REDUCE THE OUTFLOW OF FOREIGN EXCHANGE. IT DOES NOT DISCRIMINATE AGAINST COMPANIES ESTABLISHED AND

AUTHORIZED TO OPERATE IN COLOMBIA, BUT DOES DISCRIMINATE AGAINST COMPANIES WHICH ARE NOT ESTABLISHED HERE.

D. IMPORTANCE. THE IMPORTANCE OF THE RESTRAINT IN TERMS OF ITS EFFECT ON US TRADE IN SERVICES IS DIFFICULT TO ASSESS. THE 60/40 RULE LIMITS REMITTANCES TO THE HOME OFFICE, BUT AT THE SAME TIME IT STRENGTHENS THE LOCAL INSURANCE COMPANIES, INCLUDING THE FOREIGN COMPANIES AUTHORIZED TO OPERATE IN COLOMBIA. THE EFFECT OF THE MARINE INSURANCE RESTRICTION IS THE SAME.

E. REMOVAL OF RESTRAINT. ACCORDING TO OUR SOURCE, IT IS UNLIKELY THAT THE GOC WOULD RESPOND FAVORABLY TO REQUESTS TO REDUCE OR ELIMINATE INSURANCE RESTRAINTS. WHILE A RELAXATION OF THE RESTRAINT MIGHT BENEFIT COMPANIES OPERATING ABROAD, IT WOULD WEAKEN ALL COMPANIES OPERATING IN COLOMBIA. MOREOVER, ACCORDING TO OUR SOURCE, WEAKENING DOMESTIC INSURANCE COMPANIES COULD HAVE IMPORTANT SIDE EFFECTS, SUCH AS WEAKENING THE TERRITORIAL CREDIT INSTITUTE, A LOW-COST HOUSING AGENCY WHICH RECEIVES A LARGE PART OF ITS FUNDS FROM INSURANCE COMPANY INVESTMENTS.

2. OTHER THAN INSURANCE, PERHAPS THE CLEAREST AND MOST SIGNIFICANT AREA IN WHICH COLOMBIAN PRACTICES DISCRIMINATE AGAINST SERVICE IMPORTS IS IN ENGINEERING AND TECHNICAL SERVICES. THERE IS A 40 PERCENT TAX ON THE VALUE OF TECHNICAL SERVICES CONTRACTED FOR OUTSIDE THE COUNTRY, PLUS A 12 PERCENT TAX ON THE NET AMOUNT PAID TO THE FOREIGN CON-

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SULTANT. THESE TAXES, IN EFFECT, AMOUNT TO A 47 PERCENT TARIFF ON THE IMPORT OF ENGINEERING SERVICES. THE RESULT IS TO ENCOURAGE FOREIGN COMPANIES TO ESTABLISH OPERATIONS IN COLOMBIA, EITHER DIRECTLY OR IN ASSOCIATION WITH COLOMBIAN FIRMS. WE BELIEVE IT UNLIKELY THAT THE GOC WOULD MODIFY ITS TAXATION OF FOREIGN FIRMS TO ANY SIGNIFICANT DEGREE.
DREXLER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, TRADE CONTROLS, INSURANCE LAW, TAXES
Control Number: n/a
Copy: SINGLE
Sent Date: 04-Aug-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977BOGOTA07240
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770280-0325
Format: TEL
From: BOGOTA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770898/aaaadfld.tel
Line Count: 102
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
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Office: ACTION COME
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 77 STATE 180214
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 11-Jan-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1713432
Secure: OPEN
Status: NATIVE
Subject: NOTIFICATIONS OF SERVICES RESTRAINTS IN THE MTN
TAGS: ETRD, CO, GATT, MTN
To: STATE
Type: TE
vdkgvwkey: odhc://SAS/SAS.dbo.SAS_Docs/bbb2fc61-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009